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Proposed programme budget for the biennium 2018–2019

Strategic capital review

Tenth report of the Advisory Committee on Administrative and Budgetary Questions on the proposed programme budget for the biennium 2018–2019

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on the strategic capital review (A/72/393). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses dated 13 October 2017.

2. The report of the Secretary-General is submitted pursuant to section VI of General Assembly resolution 70/248 B, in which the Assembly endorsed the conclusions and recommendations contained in the report of the Advisory Committee of 17 March 2016 (A/70/7/Add.43) requesting that the Secretary-General continue to provide information on the prioritization of projects proposed under the strategic capital review and on the potential costs and benefits of a preventive maintenance programme, and that criteria be established to determine whether construction projects should be submitted under section 33 of the programme budget or as stand-alone proposals (A/72/393, para. 1).

II. Cost-benefit analysis of the proposed capital maintenance approach

3. The report sets out the following four options for capital maintenance, which were evaluated during the reporting period: (a) run-to-failure; (b) replacement at end of useful life (planned maintenance); (c) incremental recapitalization to extend useful life (predictive or condition-based maintenance); and (d) business-focused maintenance (a combination of the second and third options). The term "run-to-failure" has been refined to mean the practice of not recapitalizing an asset at all until it fails, while the term "replacement at end of useful life" describes the de facto practice of the Organization to date (A/72/393, paras. 10 and 11).

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4. The run-to-failure approach assumes that assets will fail at 50 per cent of their useful life if not maintained at all. The report states that the potential benefit of that approach is that no maintenance costs accrue, while the potential drawbacks include replacement costs when building assets fail and need to be fixed, incurring significant potential capital costs and involving other risks. These include the failure of the system associated with the asset, downtime due to delays and the potential need to relocate staff to a temporary facility (A/72/393, paras. 14–16).

5. Under the "replacement at end of useful life" approach, it was assumed that all assets would be replaced at the end of their useful life even if they were still in service, and that regularly scheduled operational maintenance would be performed to ensure warranty compliance and the observance of best practices. The report indicates that the potential benefits of the approach include less risk that assets will fail within their anticipated useful life and more predictable major capital investment and maintenance costs. The potential drawbacks of the approach are that major capital investment is required at the end of an asset's useful life and that operational costs may increase (A/72/393, paras. 17–19).

6. The report states that under the "incremental recapitalization to extend useful life" approach, it was assumed that the life of an asset can be extended beyond its warranted useful life by regularly performing scheduled maintenance and refurbishing major components of the asset at a reasonably early stage in its expected useful life. It was also assumed that the approach would extend the useful life of building assets by 50 per cent. The potential benefits of the approach are deferred capital investment in the replacement of assets beyond their warranty period and a reduced life-cycle cost. The potential drawbacks are reliance on established maintenance programmes and the need for capital investment in the replacement of the major components of assets to extend their useful lives (A/72/393, paras. 20–22).

7. The "business-focused maintenance" approach is a combination of the "replacement at end of useful life" and "incremental recapitalization to extend useful life" approaches, with an additional focus on monitoring and controlling mechanical assets, staff retraining and the establishment of a closely managed and monitored maintenance plan. The potential benefits include constant monitoring, which prevents catastrophic failure of assets, and better asset control, which means lower costs over the life of the asset. The potential drawback is the high initial capital cost for equipment and staff training (A/72/393, paras. 23–25).

8. The report states that the analysis examined 10 components of each building asset, namely: (a) foundations, (b) superstructure, (c) exterior closures, (d) roofing, (e) interior, (f) conveying systems, (g) plumbing, (h) heating, ventilation and air conditioning, (i) fire protection, and (j) electrical systems, in line with United Nations International Public Sector Accounting Standards (IPSAS). According to the analysis, the incremental recapitalization option is the most cost-effective and otherwise beneficial option, with the Organization spending between 34 and 54 per cent less over the 50-year useful life of a building, as compared to the current "replacement at end of useful life" approach, although it stated that an exact projection of spending under this approach would be difficult to estimate (A/72/393, paras. 27–30, and table 1). **The Advisory Committee considers that certification of the potential benefits, including the expected savings of 34 and 54 per cent over the 50-year useful life of a building, should be undertaken and validated by an independent third party, such as the Board of Auditors or the Office of Internal Oversight Services.**

9. The report of the Secretary-General also sets out the non-quantifiable benefits, including the manner in which United Nations buildings function and are used as an

outward reflection of the broader objectives of the Organization, for example serving as best practice examples of sustainable and green design and of accessibility for persons with disabilities, as well as a safe and healthy work environment for all delegates, staff and visitors. Based on the quantitative analysis and the study of the non-quantifiable benefits, the Secretary-General proposes that the Organization adopt an incremental recapitalization approach to capital spending. He intends to submit a report on strengthening capital maintenance at the first resumed part of the seventy-second session of the General Assembly (A/72/393, paras. 32, 33 and 36).

10. **The Advisory Committee recalls that it has previously expressed the view that more details should be provided on the potential costs and benefits of a preventive maintenance programme, as well as on future budgeting, so that Member States will have a better understanding of the financial implications of the approach (see A/69/811, paras. 28 and 39; and A/70/7/Add.43, paras. 24, 26 and 29). The Committee is of the view that the report of the Secretary-General does not provide an adequate explanation of the methodology and assumptions used to justify the proposed approach. The Committee also notes that an exact projection of the requirements under the incremental recapitalization approach would be difficult to estimate. The Committee reiterates that the Secretary-General should conduct a thorough cost-benefit analysis of a preventive maintenance (incremental recapitalization) approach, and should provide clear information on the financial implications of such an approach. The Committee is therefore of the view that consideration of the Secretary-General's proposal to adopt an incremental recapitalization approach would be premature at this stage.**

III. Real estate planning and management

11. The report states that the Secretariat has established the criteria for determining the classification of projects into one of three categories: (a) large-scale; (b) large and complex; and (c) largest and most complex. The strategic heritage plan of the United Nations Office at Geneva is categorized as the largest and most complex project, while the renovation of Africa Hall at the Economic Commission for Africa in Addis Ababa (ECA) and the seismic retrofit and life-cycle renovation of the secretariat building at the Economic and Social Commission for Asia and the Pacific in Bangkok (ESCAP) are considered large and complex projects. If approved by the General Assembly, the proposed replacement of office blocks A to J at the United Nations Office at Nairobi would be considered a large and complex project, while the proposed renovation of the North Building at the Economic Commission for Latin America and the Caribbean (ECLAC) would be considered a large-scale project (A/72/393, paras. 39 and 41).

12. With respect to risk management, the report indicates that the Office of Central Support Services will establish a controlled risk-management framework, and develop and implement a risk-management strategy that includes mechanisms and procedures for determining and managing risk-contingency funding and accessing the risk-contingency budget. The Office will also make recommendations to the project owner for determining, establishing and managing the risk-contingency budget, based on the likelihood that risk will occur, possible impact costs and calculation of the costs for management responses. The report states that the total sum of all the individual management response costs weighted by the likelihood that risk will occur will result in the total monetary value needed for risk response actions (A/72/393, paras. 43, 46–50). **The Advisory Committee reiterates that the contingency estimates should be presented separately from the base**

project cost, and that the estimation of project contingencies should be based on the identification of risks associated with the different phases of the project, with contingency estimates for each phase of project implementation clearly indicated (see A/72/7/Add.6, paras. 22 and 23).

13. Under project governance, the report indicates that the Office of Central Support Services is in the final stages of recruiting a Project Coordinator (P-4), based at Headquarters in New York, who would be responsible for contract management and coordination between the specialist risk-management firm and the local project teams at ECA and ESCAP and other key stakeholders. The Office is also in the process of hiring a specialist risk-management firm to perform independent risk-management services using the Monte Carlo risk-modelling simulation (A/72/393, paras. 52 and 53). The Committee was informed upon enquiry that the Monte Carlo risk-modelling simulation is a statistical analysis method used to provide a better understanding of the impact of risks in a project through the use of a range of minimum to maximum values with regard to time frames and cost estimates for stages and components and a computer-based simulation that runs multiple random project scenarios.

IV. Updated capital maintenance programme

14. Figure II of the report provides an updated list of ongoing approved, proposed and projected near-term capital projects. The report indicates that the priority of the projects included in the previous report of the Secretary-General (A/70/697) remains largely unchanged, although several projects that were initially planned to commence in the biennium 2018–2019 have been deferred to start no sooner than the biennium 2020–2021, owing to resource constraints or the fact that feasibility studies conducted in the biennium 2016–2017 yielded inconclusive results to the extent that projects could not begin as originally envisaged (A/72/393, para. 56). **In respect of the capital maintenance programme, the Advisory Committee is of the view that, as part of a comprehensive cost-benefit analysis of capital maintenance options, the Secretary-General should include an analysis of the Organization's current and future capital assets needs and requirements, as well as an analysis, by duty station, of rental requirements where the Organization is the owner as compared to the tenant of leased buildings.**

15. The report also provides a summary of the requirements relating to the approved and proposed capital projects, including the strategic heritage plan of the United Nations Office at Geneva, the seismic mitigation retrofit and life-cycle replacement project at ESCAP, the Africa Hall project at ECA, the proposed replacement of office blocks A to J at the United Nations Office at Nairobi, the proposed North Building refurbishment at ECLAC and the ongoing construction, alteration, improvement and major maintenance projects under section 33 of the programme budget (A/72/393, paras. 58–74). The Advisory Committee will make its recommendations and observations with respect to each project in its related reports.

16. In respect of the proposed refurbishment of the North Building at ECLAC, the Secretary-General proposes to execute a complete building refurbishment, retaining the main structure, fireproofing the building and replacing the roof, facade and interior finishes. The report states that this would entail the renovation of the North Building, utilizing an on-site swing space, at a total estimated cost of $14.12 million (A/72/393, paras. 70–72). The Advisory Committee recalls that in the previous report on strategic capital review, the Secretary-General projected an amount of $7.1 million in respect of the North Building refurbishment project at ECLAC (A/70/697, table 3). **In view of this variance in projected and proposed**

requirements, the Committee emphasizes that, in order for the report on the strategic capital review to be a useful planning tool, it must contain accurate and precise information on project requirements. The Committee makes more detailed recommendations and observations on this project in its report on the renovation of the North Building (A/72/7/Add.8).

V. Other considerations

Accessibility for persons with disabilities

17. In line with General Assembly resolutions 70/170 and 68/247 B on accessibility, the report states that a working group of the Interdepartmental Task Force on Accessibility launched a survey at Headquarters in June 2017, soliciting feedback from Member State representatives, staff, civil society and the public regarding the performance of the facilities relating to accessibility. It is indicated that once feedback is received, the Secretariat will determine the course of action to take to address the requirements, including whether requirements can be met through reasonable accommodation, capital investment or other services, and whether they can be met within existing resources or would require additional resources. The report further states that the practice of soliciting user feedback is also being employed by the United Nations Office at Geneva as part of the strategic heritage plan, by ECA as part of the Africa Hall project and by ESCAP as part of the seismic mitigation project (A/72/393, paras. 75–79). **The Advisory Committee recalls that the General Assembly, in its resolution 69/274 A, stressed the importance of eliminating physical, communication and technical barriers for persons with disabilities.**

Flexible workplace strategies

18. Figures II and III of the report set out the projected annual expenditures for flexible workplaces. The report indicates that the Secretariat has ensured that proposals for construction projects incorporate clear baseline data and flexible workplace elements, wherever possible, from the outset. In addition, it is indicated that in early 2017, the Office of Central Support Services developed a standardized methodology for conducting space utilization studies at all duty stations, including set parameters for the type and number of spaces to be surveyed, the duration and frequency of the data acquisition period, a standard report format and a sample data analysis presentation (A/72/393, paras. 83–87). **The Advisory Committee trusts that the Office of Central Support Services will ensure that flexible workplace strategies are incorporated into the implementation plans of construction projects in a timely manner.** The Committee's recommendations and observations on the Secretary-General's progress report on the implementation of flexible workplace strategies in New York will be presented in its related report.

Sustainability

19. The report states that the capital projects include sustainability initiatives to increase efficiency, reduce energy consumption and greenhouse gas emissions, increase water efficiency, improve indoor air quality and expedite the removal of hazardous materials. The report further states that the offices undertaking capital projects have ensured that baseline data are collected prior to the implementation of the projects so that energy and other environmental benefits may be measured accurately following their implementation (A/72/393, paras. 90–92). **The Advisory**

Committee trusts that baseline data and expected energy efficiencies will be factored into the cost-benefit analysis of capital maintenance options.

Impact of the global service delivery model and other business transformation initiatives

20. The Secretary-General indicates that the impact of the global service delivery model is not presently known, and that Umoja has no known impact that would change the project proposals contained in his present report. The Secretary-General nonetheless considers that it is prudent practice for the management and stewardship of the real estate assets of the Organization to proactively pursue a capital maintenance programme for these assets (A/72/393, paras. 94 and 95). Upon enquiry, the Advisory Committee was informed that staffing levels at duty stations may change depending on decisions that the General Assembly may make with respect to the Secretary-General's reform initiatives and the global service delivery model. **The Committee considers that the impact of initiatives such as the global service delivery model and Umoja should be assessed prior to consideration of the proposed capital maintenance programme.**

Alternative financing options

21. The report states that the Secretary-General has been soliciting voluntary contributions from Member States, both in cash and in kind, in the context of the strategic heritage plan and the construction projects at ECA and ESCAP (A/72/393, para. 97). Wherever relevant and possible, the Secretary-General will also propose the use of income received from tenants, as well as income from the valorization of United Nations-owned real estate assets and energy-related subsidies. **The Advisory Committee is of the view that detailed information on proposed sources of income should be included in the proposed capital maintenance programme (see also para. 14 above).**

VI. Conclusion

22. The report recommends that the General Assembly take note of the report of the Secretary-General and that the Secretary-General be requested to submit an updated report on the long-term capital maintenance programme (2020–2039) at the main part of the seventy-fourth session (A/72/393, para. 98). **Taking into account its recommendations and observations above, the Advisory Committee recommends that the Assembly request the Secretary-General to undertake a comprehensive and detailed cost-benefit analysis of a preventive maintenance (incremental recapitalization) approach and to provide clear projections of the financial implications of such an approach. The Committee expects that the analysis will address the concerns raised by the Committee in the paragraphs above. Furthermore, the Committee is of the view that any future reports on capital maintenance should be based on the results of the comprehensive analysis.**